BC STATS
Province of British Columbia
Ministry of Finance and Corporate Relations

Infoline

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May 9, 1997

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http://www.bcstats.gov.bc.ca

Report

Genuine Progress Indicator (Part 1)

BC at a glance . . .

POPULATION (thousands)	Jan 1/97	% change on year ago
BC	3,902.5	2.2
Canada	30,135.9	1.1
GROSS DOMESTIC PRODUCT		% change
(BC - at market prices - $ millions)	1995	on year ago
Current Dollars	103,273	4.6
Constant (1986) Dollars	74,107	1.9
TRADE ($ millions)		
Manufacturing Shipments (seas. adj.) Feb	2,843	7.0
Merchandise Exports (raw) Feb	2,100	8.9
Retail Sales (seasonally adjusted) Feb	2,734	3.9
CONSUMER PRICE INDEX		% change
(all items - 1986=100)	Mar '97	on year ago
BC	139.6	0.9
Canada	137.6	2.0
LABOUR FORCE (thousands)		% change
(seasonally adjusted)	Apr '97	on year ago
Labour Force - BC	2,005	2.1
Employed - BC	1,824	1.4
Unemployed - BC	182	10.0
		Apr '96
Unemployment Rate - BC *(percent)*	9.1	8.4
Unemployment Rate - Canada *(percent)*	9.6	9.5
INTEREST RATES (percent)	May 7/97	May 8/96
Prime Business Rate	4.75	6.50
Conventional Mortgages - 1 year	5.40	6.50
- 5 year	7.50	8.50
US/CANADA EXCHANGE RATE	May 7/97	May 8/96
(avg. noon spot rate) Cdn $	1.3816	1.3681
US $ *(reciprocal of above rate)*	0.7238	0.7309
AVERAGE WEEKLY EARNINGS		% change
(industrial aggregate - dollars)	Feb '97	on year ago
BC	611.38	2.8
Canada	596.36	3.6

SOURCES:
Gross Domestic Product: Statistics Canada, revised by BC STATS
Population, Trade, Prices, Labour Force, Earnings: Statistics Canada
Interest Rates, Exchange Rates: Bank of Canada Weekly Review

When disaster strikes, GDP rises.

Is there a better way to measure our well being as a province? Read today's report, the *Genuine Progress Indicator*. Part 2 will appear in next week's Infoline.

Statistics Canada presents . . .

an information session on NAICS — the common industry classification system to be used in Canada, the United States and Mexico within the next few years.

NAICS: North American Industry Classification System

Statistics Canada recently released the final structure, titles and codes for NAICS. The information session will introduce NAICS and discuss how it relates to the 1980 SIC, the impact of NAICS on Statistics Canada, and the implementation of NAICS at Statistics Canada for reference year 1997.

To register for this free session, fax your response to (604) 666-6966 or phone (604) 666-1851.

Date: Friday, May 30
9:00 to 10:00 am
(coffee 8:45 am)
Location: Statistics Canada
6th Floor Boardroom, 300 West Georgia Street
Vancouver

Released this week by BC STATS

- No subscriptions releases this week.

Next week

- Labour Force Statistics, April 1997
- Exports (BC Origin), February 1997
- Consumer price index, April 1997

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Infoline Report:
May 9, 1997

The Genuine Progress Indicator: A Better Measure of Progress? (Part 1)

Reprinted from the March 1996 issue of *Business Indicators*. An annual subscription is $60 + GST.

In an article that appeared in the October 1995 issue of the *Atlantic Monthly* ("*If the GDP is up, why is America down?*") an organization called *Redefining Progress* criticized the use of gross domestic product (GDP) as a measure of economic progress. The group argued that the negative or "illth" side of GDP outweighs the wealth that it purports to measure, and that "some of the fastest growing portions of the US economy include crime and prisons, gambling, disease, and entertainment". Furthermore, they contend that GDP places an arbitrary and indefensible value of zero on the social structure and natural habitat, assuming that their breakdown has no economic consequence. The publication of the article has engendered a considerable debate in both Canada and the United States about the validity of GDP as a measure of economic progress over time. This article provides an overview of the issues raised in the *Atlantic Monthly* article, a summary of the methodology used to derive the Genuine Progress Indicator, and a discussion of some of the advantages and drawbacks of this alternative approach to economic accounting.

What's wrong with GDP as a measure of progress?

In the traditional approach to economic accounting, four types of transactors are identified: individuals or households, businesses, governments, and nonresidents. Their expenditures are added together to produce an estimate of total market-based economic activity–the gross domestic product, or GDP. Only those activities which add to current production are included in GDP: transfers from one economic agent to another, such as pension payments, are explicitly left out. So are activities, such as parenting or household work, for which no payment has been made. Similarly, black market activities are explicitly excluded. GDP restricts itself to the market place, and in general, only those activities which involve an exchange of money are counted. However, even though certain activities are not explicitly measured in GDP, social and environmental ills, by negatively affecting the ability of individuals to produce goods and services, and to function in society, do act as a drag on GDP.

The major flaws the authors of the *Atlantic Monthly* article see in GDP as a measure of progress are:

- It makes no distinction between economic transactions which add to well-being and those which diminish it. They argue that a significant portion of GDP growth is the result of fixing previous blunders and correcting for social decay. Natural disasters, pollution cleanups, crime, divorce, societal breakdown, and other ills, they argue, increase GDP even though few would claim that they add to the well-being of society.
- It takes no account of changes in income distribution over time.
- It ignores the depletion or degradation of natural resources.
- It only assigns a value to goods and services that are exchanged in the market place. Other activities which make important contributions to the well-being of society are not accounted for in GDP. The "informal economies" of family and community are ignored. Non-market, non-polluting activities such as walking and the serenity of parks make no contribution to GDP, even though other activities which have a negative effect on the environment (such as driving and sales of noise-making ghettoblasters) increase GDP. Moreover, GDP can be increased simply by shifting functions from the realm of the community and household into that of the monetized economy.
- Continued growth in consumption doesn't necessarily imply that people are better off. Consumption is only clearly a good to the extent that it meets our basic needs. Beyond that, it begins to have some negative elements because not all individuals have the same access to goods and services, and certain goods are valued mainly for their exclusivity. Other goods (such as cigarettes)

are consumed to excess, and have a negative effect on people who wish they hadn't consumed them.

- GDP ignores the liability of living on foreign assets.

In order to correct for these perceived deficiencies in how economic progress is measured, the Genuine Progress Indicator (GPI) was proposed as an alternative to GDP. In the GPI, a number of factors which have contributed to a decline in the well-being of society are identified, and their cost to society is quantified.

What is the Genuine Progress Indicator and how is it calculated?

The Genuine Progress Indicator (GPI) looks at the economy from the point of view of the individual, and how he or she is affected by various types of market and non-market activities. The estimate is calculated as:

GPI = (P – C)+ O, where

P = Economic progress;

C = The cost to society of economic activity, social and environmental decay; and

O = Other factors, which may have a positive or negative value

The first step is to determine a measure of economic progress (P) over time:

The starting point for the GPI is consumer spending on goods and services, which makes up about two-thirds of total GDP. Consumer spending is adjusted by an index of income inequality that is based on the share of national income received by the poorest 20% of households each year. The assumption is that the well-being of society increases the most when the lot of its poorest members is improved, so when income inequality decreases, the GPI goes up.

The next step is to add in the value of non-market activities such as household work, parenting, and volunteer work. This is based on an estimate of the average amount of time spent on these activities, and an average hourly wage. Also included is the value of the services consumers receive from owning consumer durables such as cars, appliances and furniture (amortized over the life of the durable goods).

Finally, an estimate of the value of the services of roads and highways constructed by governments is included. All other government services are excluded from the GPI, since they are deemed to be defensive in nature (correcting for social decay and erosions in the quality of life) and therefore don't increase social well-being.

These components are all added together to determine an initial estimate of economic progress: the benefits that consumers derive from market and non-market based economic activities. All other types of expenditures either do not enter the equation, or are viewed as costs because they are deemed to be defensive in nature, or because they do not add to the well-being of society.

The next step is to look at all of the costs associated with economic growth (C):

In the GPI, these costs can be grouped into five main categories:

- Social decay (crime, family breakdown, and the cost of accidents)
- Loss of time: (leisure time, work time lost due to underemployment, and time lost due to commuting)
- Pollution (household pollution abatement, and costs associated with water, air and noise pollution)
- Environmental degradation (loss of wetlands, loss of farmlands, depletion of nonrenewable energy resources, other longer-term environmental damage, the cost of ozone depletion, and the loss of old-growth forests)
- The cost of purchasing consumer durables (deducted to avoid double-counting)

The costs associated with each of these activities are estimated using a variety of different methods, many of which are largely based on a subjective evaluation. For example, variables such as the number of hours spent watching television, legal services, counselling, real estate and other costs associated with divorce are used

to put a value on the cost of family breakdown. The net effect of all these deductions is to decrease the initial estimate of economic progress for 1994 by about 75 percent.

Finally, two components (O), which may have either a positive or a negative value, are considered:

- Net capital investment–a measure of the extent to which investment growth exceeds labour force growth (it is assumed that the amount of capital per worker must stay the same or increase)
- Net foreign lending or borrowing–a measure of the extent to which investment and consumer purchases are financed by lending from abroad.

End of Part 1

To be continued next week . . .

- **How does the GPI compare to GDP?**
- **Why has per capita GPI fallen so much while GDP continues to grow?**
- **Should we scrap the GDP? Is the GPI really a better measure of economic progress?**
- **What implication does all this have for the way we measure economic progress in BC?**
- **Is it practical to produce the same type of estimates for BC?**

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highlights

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a weekly digest of recently released British Columbia statistics

Labour Force

- **British Columbia's unemployment rate rose 0.7 percentage points to 9.1% (seasonally adjusted) in April.** The increase in the unemployment rate occurred despite job growth last month. The number of British Columbians with jobs increased by 4,800 between March and April, but the growth was not strong enough to absorb the addition of 19,800 people to the province's labour force. A labour force that was growing faster (+0.5%) than the number of jobs available (+0.2%) was also responsible for the rise in Canada's unemployment rate, which went from 9.3% in March to 9.6% last month. BC's unemployment rate remained below the national average, but continued to be considerably higher than in the other western provinces. Saskatchewan (6.2%) had Canada's lowest unemployment rate in April, and the rates in Alberta (6.3%) and Manitoba (6.6%) were only marginally higher. Newfoundland (19.1%) and Prince Edward Island (16.0%) had the highest unemployment rates in the country. *Source: Statistics Canada*

- **Unemployment rates increased in both Vancouver and Victoria. Vancouver's rate rose 0.6 percentage points to 8.5% (seasonally adjusted 3-month moving average).** This was largely due to a 7.8% decline in employment. In Victoria, the unemployment rate rose 0.8 percentage points to 8.3%.

  Among the province's regions, unemployment rates ranged from 7.1% in Northeast to 11.4% in Cariboo. Kootenay (10.6%) and Thompson-Okanagan (10.3%) also had unemployment rates in excess of ten percent. *Source Statistics Canada*

Business and Economics

- **Four out of five new businesses in Canada go out of business before they are ten years old.** Among those that do survive, key factors cited by managers as reasons for success include quality products, a strong customer focus, good management, and skilled and motivated employees.

  Managers of successful new businesses reported that high quality products were the single most important reason for their success, followed by good customer service and flexibility in responding to customer needs. Marketing strategies that focussed on satisfying existing customers were also an important factor in developing a successful business. Other factors included appropriate pricing policies, promoting the reputation of a company or its products, and improving its position in existing markets.

  Managers of these firms also considered skilled and motivated employees to be as important as good management. Over half of successful new firms invested in upgrading employee skills. Strategies related to innovation, technology, research and development were deemed to be less important to the success of a firm. In 1994, firms that had been started ten years earlier employed 215,000 Canadians. *Source: SC, catalogue 61-524-XPE*

- **After declining sharply in January, the value of building permits issued by BC municipalities continued to recover in March.** Building permits were up 23.0% (seasonally adjusted) over the previous month, due to strength in both the residential (+23.2%) and non-residential (+22.3%) sectors. Prince Edward Island (+143.0%), Saskatchewan (+40.9%) and NWT (+28.8%) were the only regions where the month-to-month growth in building permits exceeded that in BC. Nationally, the value of building permits was down 5.0% in March, as residential permits slumped (-9.5%) and the value of non-residential permits increased only moderately (+3.1%). *Source: Statistics Canada*

- **Consumer bankruptcies in the province were up more than a third (34.3%) in February,**

For data originating from Statistics Canada: data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the publication name or catalogue number.

Did you know...?
There were 26,150 vending machines in BC in 1995. More than half (16,277) of them were coffee machines. A fifth of all the coffee machines in Canada were in BC.

relative to the same month last year. There were 650 consumer bankruptcies in the province in February. However, business bankruptcies in BC decreased 18.7%. This compares to a 12.8% decline in business bankruptcies at the national level. Canadian consumer bankruptcies were 10.3% higher than in February 1996. *Source: Industry Canada*

- **Vending machine operators in British Columbia and the two territories reported sales of $48.4 million in 1995.** Sales were up 11.8% from the previous year. Almost half ($22.0 million) of the sales were from coffee machines, with soft drink machines accounting for another $10.3 million.
  Source: Statistics Canada

Housing

- **Housing starts in urban British Columbia were down 2.8% (seasonally adjusted) in April.** This compares to a 19.9% decrease in the previous month. Housing starts were down in all parts of the country except Ontario, where they increased 5.1% between March and April to a four-year high. In other parts of the country, housing starts declined by as much as 57.9% in Atlantic Canada. Nova Scotia was particularly hard hit.
  Source: Canada Mortgage and Housing Corporation

Social Trends

- **In 1995, Vancouver had the highest crime rate among Canada's nine largest metropolitan areas (those with more than 500,000 people).** The city's rates for homicide, robbery, breaking and entering, and prostitution were nearly double or more than double the national rate. Quebec City and Calgary reported the lowest crime rates. Calgary's crime rate for most offences has fallen significantly since 1991. *Source: SC, catalogue 85-002-XPE*

- **Among larger cities, residents of Montreal, Toronto, Winnipeg and Vancouver reported higher than average levels of fear in 1993.** While 27% of Canadians reported that they felt unsafe walking alone in their area after dark, the rates were considerably higher for residents of Montreal (38%), Toronto (33%) and Vancouver (32%). One in four (25%) of Canadians also worried about waiting for public transportation. This compares to 28% in Vancouver, 29% in Toronto, and 32% in Montreal, where the fear level was the highest. Similarly, 25% of Canadians were afraid when they were home alone. Among larger centres, the percentage ranged from a low of 17% in Quebec City to 30% in Montreal. In Vancouver, 25% of residents said they were fearful when they were home alone. *Source: SC, catalogue 85-002-XPE*

- **Legal aid expenditures in BC declined slightly in 1995/96, falling from $59.0 million to $58.4 million.** On a per capita basis, legal aid spending in the province decreased from $16.08 to $15.51. This was the third-highest per capita expenditure in the country. NWT ($52.12) and Ontario ($16.93) were the only regions where per capita spending was higher than in BC. The national average was $11.99 per person. Legal aid spending was lowest in PEI ($2.44), and well below average in Atlantic Canada and the Prairie provinces. *Source: Statistics Canada*

The Nation

- **Canada's net liability to foreigners had decreased 1.1% to $333 billion by the end of 1996.** Foreign holdings of Canadian bonds are a major factor in the country's net international liability. Foreigners held $356 billion of Canadian bonds in 1996, while Canadian holdings of foreign bonds totalled only $21 billion. Another factor contributing to our international net liability was a deficit in the foreign direct investment account. Foreign direct investment in Canada ($180.4 billion) exceeded Canadian direct investment abroad ($170.8 billion) by $9.6 billion in 1996. Overall, Canada's assets abroad totalled $485 billion, compared to liabilities of $818 billion last year.

  American investors are by far the country's most important creditors, holding 53% of Canada's net liability to non-residents at the end of 1996. The European Union's net Canadian holdings made up 24% of the total, followed by Japan at 15%.
  Source: Statistics Canada

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